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Virtual Commons Citation

Delaunay, Christian and Torrissi, C. Richard (2012). FDI in Vietnam: An Empirical Study of an Economy in Transition. In *Management Faculty Publications*. Paper 14.

Available at: http://vc.bridgew.edu/management_fac/14

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FDI in Vietnam: An Empirical Study of an Economy in Transition

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Journal of Emerging Knowledge on Emerging Markets
Volume 4
November 2012

FDI has grown rapidly in recent years in an increasingly integrated global economy until the recent financial and economic crisis spread globally. The emerging former Soviet-bloc countries of Central and Eastern Europe, Southeast Asia, China, and India have transitioned to market economies during the last twenty years stimulating global FDI flows which have increased more rapidly than any other international economic or financial transactions. Global FDI inflows in 1985 were estimated to be \$53 billion, however, by 1990 aggregate FDI had reached \$234 billion and data for 2008 indicate global FDI of \$1.8 trillion¹.

Economic restructuring and liberalization in the major recipient and investing countries, global capital markets, and continued economic transition in emerging command economies strongly influenced investor behavior and strategy. Economic growth has been accompanied by greater political stability and the building of democratic and market institutions in many emerging economies. The acceleration of FDI through 2008 has been fueled by the increasing globalization of transnational organizations of their production networks, the policy liberalization of host countries regarding FDI in service industries and real estate growth in mergers and acquisitions, and the expanding investment opportunities in emerging markets and newly privatized sectors in both industrialized and developing countries.



The economic and financial crisis, which developed in 2008, did not have an immediate significant negative impact of 2008 foreign direct investment flows. While loan and capital availability shrank in the U.S. in the latter part of 2007, and subsequently globally, companies took advantage of, on one hand, capital from various funds e.g. wealth and hedge funds, and , on the other hand, the depreciation of the US dollar throughout the year until end 2008. The global pattern of FDI throughout the period of this study has been dominated by OECD countries, particularly by the U.S. and the European Union. In 1989, the “triad” of the U.S. Japan, and the European Union accounted for approximately 77% of outward global FDI and by 2006, for about 65% of FDI inflows. In 2008, record inflows of FDI into developing nations were reported (\$630 billion) but the “triad” still dominated both as a home and host nations of new FDI. The U.S. continued to be the largest as well as the preferred host country of FDI, receiving over \$316 billion in 2008. As a result of the global financial crisis, global FDI flows declined significantly in 2009 and rose modestly in 2010.

Much of the FDI inflows into non Triad host economies during this period were to BRIC countries, Brazil, Russia, India, and China, with their large and growing domestic markets. However, another grouping of developing countries which are attractive to foreign investors has recently received growing attention in the research and analysis of global FDI. The CIVETS, Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa, have emerged as interesting and important host countries for FDIⁱⁱ. In particular, Vietnam has become a major and competitive host in the CIVETS grouping with strong economic growth and relative political stability.

Southeast Asia, as a region, is comprised of the 10 current member of ASEAN, the Association of Southeast Asian Nationsⁱⁱⁱ. In Southeast Asia, global FDI inflows peaked at almost \$74 billion in 2007, recovering slowly from the Asian Financial crisis and its aftermath. However, the global financial crisis significantly impacted the region as inflows fell to \$37 billion in 2009, a 50% decline. Vietnam also experienced a significant decline in FDI inflows, but was not as impacted as its more developed ASEAN partners, Malaysia, Thailand, and Singapore. FDI in Vietnam peaked at \$6.74 billion in 2007, but declined almost by a third to approximately \$ 4.5 billion in 2009, according to the World Investment Report (2010). While data on the volume and allocation of FDI in Vietnam is generally available during the period of this study from governmental sources, it is somewhat inconsistent and missing in some years. Thus, for our empirical analysis, UNCTAD data on FDI inflows to Vietnam which provide a consistent time series is used. Data provided by the General Statistical Office (2000-2008) of the government of Vietnam provides some detail on the regional and sectoral allocation of FDI, as well as source country information. As expected in developing countries, FDI clusters in the larger cities with FDI inflows to the Hanoi and Ho Chi Minh City regions amounting to an approximate average of 50% of inflows during the period of this study. Major sectors of registered FDI in the nineties for Vietnam were

primarily industry (manufacturing), construction and communication (infrastructure), tourism and other services. Since 2000, communications, transportation, general infrastructure, and service sectors have accounted for approximately 30% of inward FDI.

Country sources of registered FDI in Vietnam were primarily other East Asian economies throughout the period, with an average of between 60-65% of the total registered FDI capital inflow, with the EU and the U.S. accounting for an average of approximately 18% during these same years. The US was the eleventh biggest investor in Vietnam in registered capital from 1990-2005, but in recent years the full impact of the US Vietnam Bilateral Trade Agreement approved in July 2000 has led to increasing U.S. FDI. During the period of this study, implemented FDI as reported in IMF and UNCTD data banks has increased from \$375 million in 1991 to approximately \$8.5 billion in 2008. However, the Asian financial crisis did impact FDI in Vietnam also, declining from \$2.5 billion in 1997 to a low of \$1.2 billion in 2002, with a dramatic recovery in FDI inflows since 2002.

Vietnam has emerged as an alternative smaller emerging economy market for FDI in the last five years, attracting both domestic market seeking and export oriented FDI. Vietnam continues to attract significant East Asian and OECD investors. This paper analyses the economic determinants of FDI for a smaller Non-BRIC emerging country, undergoing a rapid transition to a market driven economy in a region of great competitiveness among host countries and growing attractiveness to major source countries.

Economic and Policy Environment

Vietnam, after decades of military conflict and economic stagnation, began economic policy reform to revive economic growth and start a transition from a command economy with central planning to a market-based economy in late 1986. This initiative and commitment to a market economy, referred to as the “Doi Moi” (renovation) process, although implemented gradually, successfully accelerated economic growth and the development of the private sector and transformed Vietnam into an open economy. From 1986 through 2006, real GDP growth averaged 6.8% with moderate inflation. With a population of close to 90 million and a literacy rate of over 90% in 2009, real GDP grew at an average rate at 8.1% during 2007-2009, and nominal GDP in dollars, rose from \$45.3 billion to \$93.7 billion, more than doubling. In all basic economic measures, Vietnam emerged as an ASEAN “Tiger Cub” in the past decade. Of course, economic growth and FDI were negatively impacted between 1998-2002 as a result of a slowing of economic and FDI policy reforms but also the East Asian financial crisis which began in late 1997. This financial, currency, and economic crisis impacted the economy of every country in East Asia. Foreign investors recalculated the expected risk/return ratios and put many FDI projects on hold. Full economic and



financial recovery and the restoration of foreign investor confidence took years, with regional FDI inflows ending their decline in 2002 as reported by UNCTAD (2008). However, during the crisis and its aftermath, real GDP growth continued in Vietnam, bottoming out at 4.7% in 1999. Vietnam was not as impacted by currency collapse and short term capital flows volatility as the larger, more economically unstable economies in the region. According to UNCTAD, “it (Vietnam) was able to weather the East Asian financial crisis much better than other countries, FDI inflows were increasing again in 2003, to approximately \$1.5 billion”^{iv}.

As an outcome of Doi Moi initiatives, Vietnam opened its economy with the first “Law on Foreign Investment” in Dec. 1987. As specified, FDI was permitted and welcomed on the basis of respect for sovereignty, existing laws and regulations, and mutual benefit. The laws governing FDI have been revised frequently since then to improve the FDI climate and attract more investment. In 2006, a New Investment Law was approved that further liberalized and simplified FDI regulations and decentralized management of FDI proposals and their implementation. With a favorable FDI climate, political stability, economic growth, and a literate and low cost workforce, Vietnam has increased FDI inflow each year since 2002.

In addition to the favorable domestic, economic, financial and legal reforms and economic performance, Vietnam has participated as a member in a number of regional and global organizations since 1995. Vietnam joined ASEAN, The Association of Southeast Asian Nations, in July 1995, with a commitment to regional free trade and a gradual elimination by 2005 of tariffs and to a future ASEAN Economic Community with the free flow of goods, services, and investment. In 1998, it became a member of APEC, the Asian-Pacific Economic Cooperation group, seeking the objective of free and open trade and investment in the Asia-Pacific in the next decade. For the U.S. which had not been a major investor in Vietnam during the nineties, the signing of the “Bilateral Trade Agreement” with the U.S. in 2000 has encouraged rapid growth of FDI by U.S. firms and U.S. regional subsidiaries in Southeast Asia. Also, this has accelerated the normalization of economic and political relations between the two countries. Lastly, Vietnam, although a member of the U.N. since 1977, became a full member of the WTO in January 2007 with a commitment to all WTO multilateral agreements except on Government Procurement Policy. Thus, as a major growing emerging economy, Vietnam has integrated into the global economic and business environment and developed a dynamic open market economy.

Literature review

Classical models of FDI tend to follow Dunning’s (1980) ownership, location and internalization approach (OLI), relative factor endowments (Helpman, 1984), openness to trade (Hejazi and Safarian 1999), comparative advantage and institutional factors (Bush et al., 2003). Host country determinants of FDI tend to revolve around economic conditions, host country policies and MNE strategies and have been well documented

(Lall, 1997). Specific FDI determinants in developed economies tend to focus on location attractiveness such as market size and infrastructure, risk reducing policies, stability and strength of the currency, membership in international trading organization, and state incentives (Blonigen, 2005). In addition to the “classical” market attractiveness, FDI determinants in emerging markets tend to emphasize labor costs and labor skills and other attractiveness factors as highlighted in Nunnenkamp (2002). Of particular interest are studies focusing on emerging economies previously under socialist rules such as China and Eastern European countries. Given China’s size and unique market considerations, FDI determinants in China mimic both that of emerging and developed economies with domestic market size, cost advantages and openness to the rest of the world as significant determinants (Dees, 1998). Perhaps even more relevant as a comparison to Vietnam is FDI in countries formerly identified as Eastern European. Bevan and Estrin (2004) established that country risk, labor costs, host market size, EU accession and gravity factors were significant determinants in attracting FDI. The significance of market size and labor cost were confirmed by Torrisi et al (2009a) who also found taxes and privatization to be equally relevant in attracting foreign investment in Poland (2009b).

There is an abundance of research articles on the impact of FDI in Vietnam. Most of the research underlines the positive effect of FDI on the economy: Lan (2006) notes FDI impact on Vietnam’s rate of growth and additional wealth through exports. Nguyen (2007) points out that the rapid growth is in turn a determinant of new FDI. Hoang (2008) argues that market size, GDP growth, trade openness, and infrastructure development are factors attracting FDI inflows. Pham (2010) described the mutual causality between export and FDI in Vietnam, while Mirza and Giroud (2004) reported that political stability, government policies, size of the local market and quality of the labor force were significant determinants of FDI in Vietnam. Meyer and Nguyen, (2005) found the effect of institutions on FDI to be a statistically significant determinant of FDI, as well as population, transport, GDP growth, wages, and education. While locational factors have played a role in Vietnam’s attractiveness to FDI, (with neighboring China and the relative proximity of Japan), its low labor cost has also been stressed (ODI 1997). Using panel data, Hsieh (2005) found that GDP per capita, and the degree of trade openness were significant positive determinants. Additionally, the Asian financial crisis was found to have deterred FDI inflows. In a sixteen Asian country model, (including Vietnam) Nguyen and Haughton (2002) found that trade openness, currency strength, government budget deficit, and domestic savings were significant factors in attracting FDI. They also linked the increase of FDI in Vietnam with the Bilateral Trade Agreement with the US, a conclusion also reached by Parker et al (2005).



Model Specification and Methodology

The dependent variable in the FDI models estimated for Vietnam is annual FDI in dollars from 1991 to 2008 as reported by the IMF and UNCTAD, databases. Thus, the measure includes all reinvested earnings as well as new capital inflow and provides a consistent time series of annual aggregate FDI. Similarly, annual GDP is measured in current dollars for the time period analyzed, as specified by these international sources. Data for additional independent variables examined in our FDI models are primarily from country sources such as the General Statistics Office of Vietnam. Where data from earlier years is missing for some of the variables in our analysis, our time series is supplemented by data provided by other country and international sources such as the Labor Ministry of Vietnam.

Models of FDI determinants in emerging economies emphasize two groups of factors. Extending the classical models of FDI and the many empirical studies of FDI in OECD countries, macro-economic variables that are available in consistent time series from international and/or governmental sources most often include market size, market growth, trade openness, etc. This paper examines these economic factors for impact on FDI in Vietnam using a period of rapid economic transition and trade and investment liberalization. Additional, less quantifiable non-economic factors (such as political stability, institutional efficiency, cultural similarity, corruption indicators) are sometimes FDI determinants. However, for the period of this study, indices or consistent measures of these qualitative factors are not available for Vietnam and future research on the topic will require the specification of proxy variable or measures for these factors. This paper does attempt to explore the impact of external events, through the use of dummy variables, that may have influenced the political and economic environment for FDI in Vietnam.

Vietnam has experienced significant increases in FDI in the past decades, although primarily Intra-East Asian inflows, linked with real economic growth during this period. Previous empirical studies have examined key macro-economic variables that may influence FDI with mixed and often ambiguous results. This paper extends and updates past research, examining a number of these determinants for Vietnam during its rapid economic transition and transformation. During this same period, two significant events occurred which altered the internal economic linkages of Vietnam and may have had a major impact on the economic and investment climate in Vietnam. Both the entry of Vietnam into ASEAN and its regional free trade agreements in 1995 and the Asian financial and currency crisis in 1997-1998 are examined in our models through the use of dummy variables.

FDI in emerging economies can be motivated by a blend of investor objectives. Foreign investors can be seeking new markets for maturing products where the domestic economy and population is growing. Of course, much FDI is also efficiency

seeking and resource seeking in developing economies. Investors may be looking for host countries that have low cost labor and abundant national resources. Thus, this paper includes a number of economic variables that address these possible objectives.

Market size is measured by annual Gross Domestic Product in dollars and is expected, as confirmed in many empirical studies, to be a significant and positive determinant of FDI. Market growth measured as the annual growth rate of GDP is also examined, as foreign investors who are market seeking may be more motivated by economic growth experience and potential rather than current economic activity in emerging economies. The strength (or weakness) of the national currency to the dollar has often been used as a proxy for the level of relative inflation, general economic uncertainty, and instability, and the purchasing power of the foreign investor. Our analysis includes the annual market mid-year exchange rate of the Vietnamese Dong to the dollar and, as an alternative, the Dong to the SDR exchange rate variable was also examined. A theoretical expectation would normally be of a positive and significant relationship to FDI inflows. Depreciation of the host country currency might attract foreign investors to acquire more cheaply real and financial assets and to enhance export competitiveness. However, for emerging economies, if FDI is primarily domestic or regional market seeking and sourced by countries and companies in the region as is the case for Vietnam, rather than inflows from U.S. or European investors, the relationship may be insignificant or negative, as previous studies have indicated^v.

As an emerging economy with a large and literate labor force, Vietnam could attract significant efficiency seeking FDI. Thus, a wage variable from the General Statistics Office of Vietnam, annualized as average income per employee in the private sector, is included in our regressions. During a period of rising wages, as was the case in Vietnam, the theoretical expectation would be that resulting higher costs of production would reduce FDI inflows into the region. Although it certainly could be argued that rising labor costs are an indicator of improving productivity and rising domestic purchasing power, which might attract more FDI.

Many previous studies of FDI argue that trade “openness” of the host economy may be positively associated with FDI inflows. If much of FDI is export oriented and requires the import of complementary intermediate and capital goods, trade volume increases overall and as a percentage of economic activity. Also, trade openness can be a proxy for successful economic liberalization and favorable trade policies. Thus, a trade openness variable measured as the annual total of exports plus imports is also included in some of our models estimated, with an expected positive and significant coefficient. Vietnam during the period of this study experienced two significant economic and international “events” as mentioned. In 1995, Vietnam was accepted into ASEAN and the regional free trade agreement and thus significant trade barriers within the region were dismantled. As in EU studies by Bevan and Estrin (2004) and others, accession to ASEAN is represented by a dummy variable, ASEAN Dummy, equal to zero from



1991-1994 and to one for 1995-2008. The academic literature and indeed the experience of smaller economies joining the EU suggests that the benefits of accession and membership to regional free trade blocs include increased FDI inflow as access to a growing regional market enhances a country's attractiveness to investors. The expectation is of a positive and significant relationship between accession to ASEAN and FDI in Vietnam.

Lastly, as is confirmed in much of the studies of the Asian financial and currency crisis in 1998, FDI inflows in the region were negatively impacted by the crisis and its economic impact. FDI data indicates that for ASEAN as a region FDI inflows peaked in 1997 and did not fully recover the past levels until 2005. However, FDI inflows for Vietnam recovered by 2003. This paper tests for the impact of the crisis on Vietnam by using a dummy variable, 1998 DUMMY, equal to 0 for 1991-1998 and equal to 1 for 1999-2008. The expectation is for a negative and significant coefficient for this 1998 Dummy in our FDI regressions.

In much of the literature on FDI in advanced economies, empirical studies include a variety of risk factors or proxies, both economic and financial. Given the subjective nature of these measures, the inconclusiveness of the results in many of the previous studies, and the lack of reliable time series data for Vietnam during our period of analysis, our models estimated do not include a specific risk factor. It is however possible that the foreign exchange variable capture some of perceived market risk and uncertainty. Other factors that might influence FDI such as existing FDI stock, privatization levels, and tax rates and incentives have been examined with mixed or insignificant results in studies of FDI inflows in other countries. The authors believe that in a small developing economy undergoing economic liberalization and transition from a command to a market economy at a rapid but uncertain rate, these traditional factors may have little impact. Also, for Vietnam, time series data availability and reliability on FDI position, effective tax rates, and privatization level make inclusion of these variables difficult. In future research, the authors will attempt to measure some of these factors by more extensive data search and the design of proxy variable that may capture some of their potential impact on FDI inflows.

Thus, our models included many independent variables examined in past studies of FDI inflows to advanced economies, as well as additional variables specific to an emerging economy such as Vietnam. We specified and estimated a number of FDI models for Vietnam, although constrained by the lack of consistent time series data for the period of 1991-2008. Using OLS multiple regression methodology with lagged and non-lagged variables, we report only those models and results that were robust and consistent, and produced acceptable regression test statistics.

Empirical Results

Various regression models were tested. The three most significant are reported below. The first two attempt to capture the effects of the 1997-1998 financial crisis while the third includes the impact of Vietnam's membership in the ASEAN trade association. Lagging the dependent variable did not change the overall meaning of the regression results but weaken the significance of the determinants, a result that is probably due to the limited time-series available for analysis. It is also worth noting that GDP growth, tax rates and trade openness (usually defined as export plus import as a percentage of GDP), were never significant in any regression model tested. As was noted in the literature review, FDI in Vietnam is as much for domestic consumption as it is for re-exports thus the first regression model looks at domestic macro-economic variables.

Table 1 shows that, as expected, the size of the domestic market (GDP) is a positive and very significant determinant while labor costs (Wages) and the dummy variable representing the 1997-1998 currency crisis are both negative and very

Table 1: Domestic Market and the 1997-1998 Financial Crisis

Independent Variables	Coefficients	t	Significance
GDP	3.601	3.990	.002***
Growth Rate	.069	.542	.597
1998 Dummy	-.420	-2.402	.032**
Wages	-2.536	-2.965	.011***

*** Significant at 1%

** Significant at 5%

* Significant at 10%

Adjusted R² .855

Durbin Watson 1.952

significant. The GDP growth rate was not significant. For this model, both R square and Durbin Watson are very good, respectively .86 and 1.95, suggesting very good overall explanatory power and very low autocorrelation. This model confirms the importance of the domestic market attractiveness, tempered by the rising labor costs and the significant and negative impact of the 1997-1998 crisis. While the financial crisis of summer 1998 limited FDI attractiveness in Vietnam, it is also true that the most obvious FDI were realized in the early stages of the "Doi Moi" policy when foreign capital was finally allowed. Some have argued that the slowing down of the liberalization reforms were responsible for the tapering FDI in Vietnam (Massina, 2002), but Leproux and Brooks (2004) point out that the relative decline in FDI was due, to a large extent, to the end of the speculative bubble in real estate. This financial crisis issue is further examined in the next model.

The second model includes a Dong per SDR value^{vi}. As shown in Table 2, the adjusted R² for this model is quite high at 0.885 suggesting the model has significant explanatory



value, while the Durbin-Watson statistic is in the appropriate range symptomatic of low autocorrelation.

Table 2: Currency Impact and the 1997-1998 Financial Crisis

Independent Variables	Coefficients	t	Significance
GDP	1.852	2.736	.017**
1998 Dummy	-.326	-1.959	.072*
Wages	-.233	-.321	.753
Dong per SDR	-.600	-1.925	.076*

The 1998 dummy variable is set to 0 for 1991-1998 and to 1 for 1999-2008

*** Significant at 1% Adjusted R² .885

** Significant at 5% Durbin Watson 1.743

* Significant at 10%

As expected the GDP variable is significant and correctly signed. The currency crisis dummy variable is again negative and significant, confirming the negative impact the 1997-1998 financial crisis. The variable measuring wages is indeed negative as expected but not significant in this model. A better measure of the impact of labor costs on FDI should include productivity measures, but these are not available as a consistent and reliable time series for the period under consideration. It is also possible that the labor cost advantage of Vietnam is such that increases in wages do not significantly impact the attractiveness of Vietnam for FDI, particularly when the Dong depreciation is taken into effect.

Perhaps the most puzzling result is the significant but negatively signed “Dong per SDR” variable. This confirms Kin and Oh’s (2007) empirical study of FDI in Vietnam, where the Dong per Dollar was found to be a significant and negatively signed variable. This was also true in another recently emerging market, as a similar result was found in Torrìsi et al, (2009) who reported that the Polish Zloty’s appreciation vis-a-vis the US dollar was linked to higher levels of FDI in Poland. Yet traditional models of FDI usually associate the greater purchasing power of the foreign acquiring firms (resulting from a strengthening foreign currency or a weakening the local currency), with a greater ability to invest. However our results suggest that a weakening Dong (the increasing Dong per SDR or per dollar) is negatively impacting FDI. It is possible that in rapidly growing emerging markets, the decreased value of the host currency may deter FDI as it indicates a worsening economy or rising inflation. It should be noted that the limited volatility of the Dong compared to its regional competitors might have boosted foreign investors’ confidence in the Vietnamese economy. Finally, since approximately two third of FDI in Vietnam’s originates from other ASEAN countries, the value of the Dong in dollar or even in terms of SDR may be of limited relative importance in explaining inward FDI.

The third model reported includes a dummy variable representing Vietnam's membership in the ASEAN trade association in 1995. As shown in Table 3, once again the adjusted R square is very high at 0.914 and the Durbin Watson (1.987) is indicating low autocorrelation. As expected, GDP was a very significant and positive variable. The variables "Growth rate" and "Wages" were not significant. Again, the local currency variable (measured this time as the more common Dong per dollar value) was negative and very significant. As suggested earlier, the uniqueness of newly emerging economies with regard to host currency value in relation to FDI may be responsible for this finding. For a foreign investing company, perhaps domestic growth factors and exchange rate stability prevail over currency valuation.

It is not clear what the impact of Vietnam's membership in the ASEAN trading zone meant in term of increased FDI attractiveness. The ASEAN dummy variable is actually negative but not significant. This corroborates Hoang's findings (2008). While there was some intra ASEAN trade increase since Vietnam joined this trade association, this intra-trade is actually fairly low, thus the re-export potential from Vietnam to the ASEAN markets is equally limited. This in turn, limits the additional attractiveness of the ASEAN membership for FDI. It is fair to say that ASEAN has not been a very successful trade integration mechanism. Certainly the hopes of matching the success of the EU in that regard have not been realized. With only five observations (1991 to 1995), the limitations of the time-series may be an issue here. Additionally, the close proximity of both Vietnam's ASEAN membership and the regional currency crisis might have limited the positive impact of the former on FDI attractiveness by the

Table 3: Impact of the ASEAN membership

Independent Variables	Coefficients	t	Significance
Growth rate	-.154	-1.103	.291
Wages	-.896	-1.000	.337
GDP	2.524	3.013	.011***
ASEAN dummy	-.249	-1.402	.186
Dong per dollar	-.777	-2.933	.013***

The ASEAN Dummy Variable was set to 0 from 1991 to 1995 and to 1 from 1996 to 2008

*** Significant at 1%

Adjusted R² .914

** Significant at 5%

Durbin Watson 1.987

* Significant at 10%

later increased uncertainty on valuation models and returns on investment. Finally, Vietnam's accession to ASEAN was gradual and the full investment benefits were not available until a few years after 1995. This further compounds the difficulty of separating the impact of ASEAN membership to that of the 1997-1998 currency crisis.



Conclusion, Policy Implications and Future Research

Research on FDI in Vietnam, such as the one reported in this paper offers a unique perspective on the challenges faced by CIVETS and other newly emerging countries. Understanding the determinants of FDI in Vietnam is instrumental in appreciating the relative success of the Doi Moi policy and offers valuable policy implications for both governments desirous to mimic Vietnam's success and to foreign companies scanning the globe for investment opportunities.

While dwarfed by its Chinese neighbor both in terms of trade and by the volume of inward FDI attracted, Vietnam has, for the most part, successfully managed the transition from a centrally planned economy to that of a "mixed", more market oriented form of capitalism while avoiding the traditional trappings such changes usually entail. As a nation of 89 million people and a member of ASEAN and WTO, it succeeded in attracting significant inward FDI while avoiding most of the effect of the currency crisis of the late 1990s. Its policies oriented FDI toward domestic priorities (manufacturing, infrastructure, communication and tourism) while keeping natural resources in State's hands.

The regression models presented in this paper show that while macro-economic variables such as GDP and to a lesser extent labor costs were predictably significant as determinants of FDI in Vietnam, (as they are in developed economies), the loss of value of the Dong, both against the dollar and against SDR, was a significant and negative factor in the regression models. It appears the relationship of the value of the host currency to FDI in newly emerging countries may be different from that of the more developed countries. Tax rates, openness to trade and growth rate were not shown to be significant in this empirical analysis. Perhaps the traditional literature on FDI needs to be re-examined for the unique challenges facing the newly emerging economies such as CIVETS countries. In a rapidly changing and growing environment, a stable or gradually depreciating currency relative to more volatile regional host currencies may contribute to the attractiveness to FDI. Institutional change and gradual openness such as the one instituted by the "Doi Moi" policy are likely to be positively perceived by foreign investing companies. The transition from a state controlled economy to that of a market based is not without peril. The "shock therapy" advocated by some and tried in the ex USSR may ultimately yield greater economic benefits, but the cost in terms of unemployment, inflation, potential instability and human hardship are significant. Vietnam, perhaps because of its gradual opening, managed to avoid most of these side effects until recently.^{vii} It also avoided much of the negative consequences of the 1997-1998 currency crisis. Unfortunately, a consistent a time-series measurement of institutional change and of the openness to investment was not available to further test this variable's impact on FDI. Countries which are "late-comers" to the global quest for foreign direct investment may be tempted to quickly match the benefits of openness and

deregulations offered by their more economically developed neighbors and competitors. Vietnam, with its unique form of State capitalism, and real annual economic growth may represent a valid alternative to foreign investors, sufficiently attractive to FDI yet resilient enough to a regional currency crisis.

When scanning the globe for investment, companies assess the relative merits of each locational advantage. Thus future research should consider a more comprehensive regional FDI analysis such as a model using panel data with other ASEAN countries. Adding comparative labor costs variables, especially if adjusted for productivity gains would also yield valuable insight into the relative determinants of FDI in this region. Other forms of comparative advantage, such as relative currency stability, relative growth of the domestic market, privatization data, risk assessment variables and relative tax rates could also be considered. Insuring these new variables are consistent and reliable during a twenty year time-series and across several countries is a significant challenge. For both host countries and corporations alike, gaining a greater insight into FDI determinants in smaller economies is well worth the challenge. As capital flows to newer and growing markets in non BRIC and CIVETS emerging economies, such undertaking becomes critical.

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ⁱⁱ The Economist, August 2010.

ⁱⁱⁱ Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

^{iv} UNCTAD, Investment Policy Review of Vietnam, 2009.

^v Kim and Oh, Determinants of Intra FDI Inflows in East Asia, KIEP, 2005.

^{vi} Results from regression analyses using a Dong per US Dollar variable, the more common way of measuring currency strength, were consistent with the model reported here but not as significant.

^{vii} In 2010 Vietnam’s inflation was 11.8% and the Dong devalued three times.